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The Newfoundland sawmill and planing mill industry, 1981/82. Summary report

G.R. Milne

Information Report N-X-222
Newfoundland Forest Research Centre

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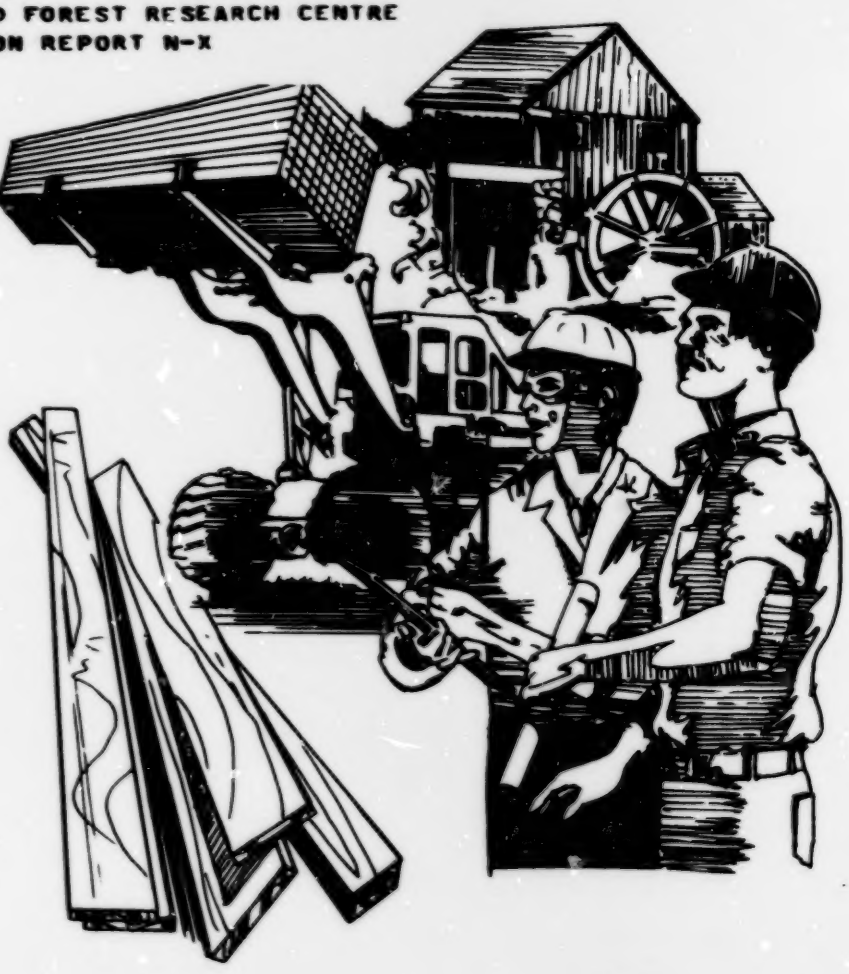
0016084C DEST PVM EXCH COPY 03
SD 391 C363
VOL ISS 222
NEWFOUNDLAND FOREST RESEARCH CENTRE
. INFORMATION REPORT N-X



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THE NEWFOUNDLAND SAWMILL AND PLANING MILL INDUSTRY: STRUCTURE, PRODUCTION, AND IMPACT ON THE PROVINCIAL ECONOMY, 1981/82

SUMMARY REPORT

by Grant R. Milne

INFORMATION REPORT N-X-222
1984

NEWFOUNDLAND FOREST RESEARCH CENTRE
CANADIAN FORESTRY SERVICE
ENVIRONMENT CANADA

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ISSN NO. 0704-7657
CAT. NO. FO46-15/222E
ISBN NO. 0-662-13272-6

Copies of this report are available from:

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FOREWORD

This report summarizes information on the structure, production and economic impact of the Newfoundland sawmill and planing mill industry in 1981/82. The information was collected from several published and non-published sources, plus a questionnaire survey of the industry in 1981. A major report has been published (Milne 1984)[1] from which this summary was prepared.

RÉSUMÉ

On présente un résumé des informations sur la structure, la production et l'importance économique de l'industrie du sciage et du rabotage à Terre-Neuve en 1981-1982. Les informations su lesquelles porte ce résumé proviennent de diverses sources publiées et non publiées, ainsi que d'un questionnaire en 1981. Elles sont contenues dans un important rapport (Milne, 1984)[1].

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[1]Milne, G.R. 1984. The Newfoundland sawmill and planing mill industry; structure, production, and impact on the provincial economy, 1981/82. Environment Canada, Canadian Forestry Service, Nfld. Forest Research Centre, St. John's, Nfld. Inf. Rep. N-X-221.

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Background

The contribution of the Newfoundland sawmill and planing mill industry to the provincial economy has never been clearly identified. Published sources of information have generally included only the larger mills. As a result, the industry's true size and economic benefits are underestimated. More accurate information on the sawmill and planing mill industry is needed to assist government officials in making policy decisions which might affect the industry. These policies could include taxation, timber allocation, marketing and funding assistance.

Industry Profile

Sawmills have long been a part of Newfoundland's rich historical background. The first recorded sawmill was built in the early 1600's to supply Sir John Guy's colony at Cupids, the first English colony in the New World. By 1884, there were 55 sawmills on the Island producing a total of 27 000 m^3 (11.4 million fbm) of lumber. The industry gradually expanded over the next twenty years based upon a large export market for white pine lumber. For example in 1904, there were over 190 sawmills producing a total of 103 000 m^3 (43.6 million fbm) of lumber. From 1912 until the Second World War, lumber production declined as the white pine resource became scarce. During this period, however, the number of mills increased to nearly 1000, mostly in small "push-bench" operations. From early in the Second World War and throughout the 1950's, both production and the number of mills increased. In the mid-1950's,

141 000 m^3 (59.7 million fbm) of lumber were produced by 1600 mills. These levels dropped in the 1960's but increased again up to the present time.

In 1981/82, approximately 1,700 sawmills produced an estimated 90 008 m^3 (38.1 million fbm) of lumber. Fifty percent of this lumber was manufactured by 63 of the larger mills, each producing more than 237 m^3 (100,000 fbm) per year. The remaining 50 percent of total lumber production was manufactured by more than 1,600 smaller mills, of which 1,229 cut less than 24 m^3 (10,000 fbm) each.

The 1,700 mills are widely distributed throughout the Province, including 74 mills in Labrador. On the Island, most mills are located in central and eastern regions, especially throughout the coastal areas. The larger mills tend to be concentrated in central Newfoundland.

Lumber Production and Wood Requirements

The questionnaire survey indicaced several important facts related to the total lumber production of 90 008 m^3 (38.1 million fbm) in 1981/82. First, 37 873 m^3 (16.0 million fbm) or 42 percent of total production was planed into dressed lumber. Second, 16 216 m^3 (6.9 million fbm) or 16 percent of total production was accounted for through custom sawing. Also, 5 302 m^3 (2.2 million fbm) of dressed lumber was custom work. Third, 3 604 m^3 (1.5 million fbm) or 4 percent of total lumber production was used by mill owners for personal construction.

The 90 008 m^3 (38.1 million fbm) of total lumber production in 1981/82 required an estimated 276 350 m^3 (76,283 cords) of sawlogs. The survey showed that 50 percent of wood input is purchased either as rough squares or eight foot logs, usually by the larger sawmill/planing mill operations. The average price of purchased wood in 1981/82 was \$10.73/m^3 (\$38.91/cord) for sawlogs, and \$81.04/m^3 (\$194.42/Mfbm) for rough squares.

Lumber Prices, Markets and Imports

Lumber prices change constantly for many reasons. For example, lumber prices in Newfoundland increased 35 percent from 1977 to 1980. In 1981 however, prices fell sharply due to high interest rates, a slowdown in Newfoundland construction activity, and increased levels of imported lumber. Lumber prices improved significantly in 1983 as the world-wide economic recession began to ease.

The survey showed that while rough and dressed lumber prices changed each year, dressed lumber prices averaged 28 percent more than rough lumber. This price spread was consistent from 1977 to 1982.

Virtually all Newfoundland lumber is sold within the Province except for a small amount used for packing newsprint shipments. Local mills generally serve an average of 40 percent of the Newfoundland market with lumber imports making up the difference. Given the smaller tree size in the Province, local mills cannot produce large dimension lumber in great quantities, for example, widths wider than 2 x 8, or lengths greater than 12 feet. Imports from as far away as British Columbia provide this large dimension lumber, however a substantial portion of imports also include smaller dimensions which local mills can

produce. The potential for substituting local lumber for imports is estimated to range between 13 and 31 percent. With the industry operating at less than 60 percent capacity in 1981, the current number of mills could supply this extra lumber. The only restriction might be in securing an adequate supply of sawlogs.

Economic Impact of the Sawmill and Planing Mill Industry

There are many indicators which may be used to describe the contributions or economic impact created by the industry. These include employment, income, mill expenditures, value added as sawlogs are manufactured into lumber, value of lumber shipments and replacement value of equipment. For some of these indicators such as employment and income, there are direct and indirect economic impacts. The direct employment would be the employees and owners in the sawmill and planing mill industry. Direct income is the wages and salaries, and owner income earned by these individuals. Indirect impacts result from the expenditure of sawmill and planing mill firms for capital and operational items, plus the expenditure by mill employees and owners for personal goods and services. The circulation of these dollars in the regional economy creates additional jobs and income in other businesses such as petroleum distributors, equipment suppliers, banks and retail stores.

A summary of economic impacts created by the Newfoundland and planing mill industry is presented in Table 1.

Table 1. Summary of economic impacts, 1981/82.

Economic Indicator	Value
a) Number of owners, full-time and part time employees	2,544
b) Man-years of direct employment	1,356
c) Man-years of indirect employment	542
d) Direct income earned by owners and employees	$5.2 million
e) Indirect income	$1.8 million
f) Capital industry expenditures	$1.4 million
g) Operational industry expenditures	$2.9 million
h) Replacement value of mills and equipment	$41.8 million
i) Value added to wood through processing	$3.5 million
j) Value of lumber produced	$8.8 million
k) Provincial public revenues paid	$806,000 to $966,000

These benefits are gained by the province as a whole and show the industry makes a noticeable economic contribution. On a local scale, the industry assumes greater importance. In many rural areas of the province, where alternative employment opportunities are scarce, this industry is a major source of employment and income. While no single mill is large enough to sustain a community on its own, there are areas such as Gambo and Clarenville where a concentration of mills provides a major boost to the regional economy.

Compared to other forestry sectors in the Province (logging, pulp and paper, woodworking), the sawmill and planing mill industry does not produce the highest level of economic benefits in terms of income, value added and value of shipments. The pulp and paper sector is by far the largest forestry contributor to the provincial economy. In terms of employment however, the sawmill and planing mill is quite labour intensive. While the number of man-years of employment ranks third among the four forestry sectors, employment per $1.00 of finished product is the largest.

Problems and Opportunities

During the course of this study, four major problems experienced by the sawmill and planing mill industry were identified. First, the industry has poor access to new technology from other regions in North America. Information on new equipment, milling techniques, mill layout, maintenance and repair, grading, etc. is available outside Newfoundland, however, very little is transferred to the industry here.

Second, Newfoundland mills have experienced problems in marketing lumber at competitive prices. Most mill owners are not fully aware of information on current lumber prices both within and outside the Province.

Third, many mills, especially smaller operations, appear to require assistance in management and accounting practices. Improvements in managing employees, bookkeeping, and accounting for depreciation, average costs, etc. would contribute towards better efficiency and profitability.

Fourth, 72 percent of mills surveyed in 1981 indicated they had an inadequate supply of sawlogs, perhaps reflecting problems with wood access and general availability of good quality sawlogs.

One of the main reasons for these problems is the structure of the industry, with 1,700 mills scattered around the Province. Efforts are underway to form a Province-wide industry association. The survey in 1981 showed that 65 percent of mill owners would be willing to join an association for a small annual fee. Currently, the association has approximately 80 member mills, mostly the larger operations. As the association expands its membership, the problems mentioned early may be more easily addressed through stronger government-industry cooperation. The development of an efficient and stable industry is an important goal which will yield continued regional and provincial economic benefits.

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Milne, G.R. 1984. The Newfoundland sawmill and planing mill industry; structure, production, and impact on the provincial economy, 1981/82. Env. Can., Can. For. Serv., Nfld. For. Res. Cent., St. John's, Nfld. Inf. Rep. N-X-221.